



MILLENNIUM CHALLENGE CORPORATION

[MCC FR 23-03]

Notice of Entering into a Compact with the Government of Indonesia

AGENCY: Millennium Challenge Corporation.

ACTION: Notice.

SUMMARY: In accordance with the provisions of the Millennium Challenge Act of 2003, as amended, the Millennium Challenge Corporation (MCC) is publishing a summary of the Millennium Challenge Compact (Compact) between the United States of America, acting through MCC, and the Government of Indonesia. Representatives of MCC and the Government of Indonesia executed the Compact on April 13, 2023. The complete text of the Compact has been posted at: <https://www.mcc.gov/content/uploads/compact-indonesia-infrastructure-and-finance.pdf>

(Authority: 22 U.S.C. 7709 (b)(3))

Dated: April 17, 2023.

Gina Porto Spiro

Acting Vice President,

General Counsel, and Corporate Secretary.

SUMMARY OF INDONESIA INFRASTRUCTURE AND FINANCE COMPACT

MCC has signed a five-year, \$649,000,000 Compact with the Government of Indonesia aimed at reducing poverty through economic growth.

The Compact seeks to assist the Government of Indonesia in addressing a binding constraint to economic growth: costly and underdeveloped financial intermediation, by investing in needed infrastructure project preparation and structured finance solutions, and in increased access to finance for micro, small, and medium enterprises. The Compact aims to unlock financing flows in a way that will catalyze economic growth and leverage Indonesia's own resources. The Compact will address this constraint through three projects:

- 1) Advancing Transport and Logistics Accessibility Services (ATLAS) Project;
- 2) Financial Markets Development Project (FMD) Project;
- 3) Access to Finance for Women-owned / Micro-, Small and Medium Enterprises (MSME Finance) Project.

Project Summaries

The objective of the ATLAS Project is to improve transport planning and preparation in the target provinces, responding to the root cause of inadequate infrastructure project preparation. The project includes four activities:

- *Transport Planning Reform Activity*: This activity will develop two proof-of-concept multi-modal transport planning projects to influence the Government of Indonesia to embrace the necessary institutional, legal, and regulatory reforms required to mandate and mainstream a multi-modal transport planning approach.
- *Good Practice Infrastructure Projects Activity*: This activity aims to support five infrastructure projects, which are intended to demonstrate innovative and strengthened approaches to project preparation, structuring and financing, and procurement and implementation, so that subnational governments endorse and promote Public Investment Management Guidelines principles.
- *Public Investment Management Guidelines (PIMG) Activity*: This activity will create a public, online suite of Public Investment Management Guidelines for infrastructure, designed to improve the effectiveness and efficiency of public investment.
- *Project Preparation and Delivery Facility Activity*: This activity will provide project preparation, structuring, procurement, and project delivery support to sub-national governments.

The objective of the FMD Project is to reach financial close on transactions using structured finance, including participation by institutional investors and with a focus on local currency transactions, responding to the root causes of underdeveloped project financing market and capital markets. The project includes three activities:

- *Capacity Building/Technical Assistance Activity*: This activity aims to build capacity for institutional change within the financial market ecosystem, including in the areas of green and sub-national finance.
- *Transaction Advisory Services Activity*: This activity will provide transaction advisory services to originate approximately 10 proof-of-

concept demonstration transactions.

- *Blended Finance Delivery Mechanism Activity*: This activity aims to mobilize commercial financing for sub-projects by providing blended finance grants.

The objective of the MSME Finance Project is to increase lending by formal financial service providers to MSMEs and W/MSMEs in the target provinces to support their businesses, responding to the root causes of information asymmetry and borrowers' constraints. The project includes four activities:

- *Gender-inclusive Value Chain Finance Activity*: This activity will provide non real property-based collateral financing to qualified Women-owned / Micro-, Small and Medium Enterprises (W/MSMEs) operating within growing sectors in the five target provinces.
- *Digital and Financial Literacy Enhancement Activity*: This activity will support and enhance the viability of W/MSMEs by providing technical assistance, digital and financial literacy training, and other demand driven business development support to W/MSMEs.
- *MSME Capacity Enhancement Activity*: This activity will support growth-oriented W/MSMEs that are in an earlier stage of their journey toward formalization and eventually toward formal finance. The activity will provide capacity enhancement training to eligible W/MSMEs to develop business skills, access markets, and increase sales.
- *Augmenting Government Data on MSMEs*: This activity will support the Government of Indonesia in gathering and analyzing MSME financial and technical performance data.

Policy Reform and the Compact

The ATLAS Project aims to strengthen environmentally friendly and gender-responsive, inclusive infrastructure preparation and delivery processes at all stages of the infrastructure project lifecycle, and creation of the PIMG will require new regulations to mandate the use of the PIMG and significant adjustment of technical standards and operating procedures at the national level. Similarly, the key policy, legal, regulatory, and institutional reforms that will be funded by the Compact include fundamentally changing the approach to transport planning by replacing the current single-mode planning exercises carried out separately at the three levels of government (national, provincial, district/city) with a multi-modal integrated approach. This may require adjustment of the relevant legal and regulatory framework in the transport and planning area.

The policy and institutional reform approach of the FMD Project will be supportive of a multi-donor push to improve the policy environment for infrastructure finance, contributing to reform efforts at the national level, considering lessons learned from the ATLAS Project's province-level engagement.

A condition precedent to entry into force of the Compact is the complete legal establishment and staffing of the accountable entity, the Millennium Challenge Account Indonesia II (MCA- Indonesia II), including the issuance of all relevant ministerial instructions and decrees. The Government of Indonesia already enacted the initial decree to establish MCA-Indonesia II; however, several additional steps remain that will be critical to complete to ensure MCA-Indonesia II's ability to implement the program quickly and efficiently.

Compact Overview and Budget

Below is a summary describing the components of the Compact with the Government of Indonesia. The budget of the Compact is approximately \$698,000,000, which includes up to \$649,000,000 funded by MCC and a Government of Indonesia contribution of at least \$48,675,000.

Table 1: Indonesia Compact Budget

Component	Amount¹
1. Advancing Transport and Logistics Accessibility Services	\$350,270,207
Activity 1.1 Transport Planning Reform	\$27,021,409
Activity 1.2 Good Practice Infrastructure Projects	\$195,385,571
Activity 1.3 Public Investment Management Guidelines	\$18,707,129
Activity 1.4 Project Preparation and Delivery Facility	\$95,614,215
Activity 1.5 Support Services	\$13,541,883
2. Financial Markets Development Project	\$95,914,256
Activity 2.1 Capacity Building / Technical Assistance	\$26,631,869
Activity 2.2 Transaction Advisory Services	\$15,437,809
Activity 2.3 Blended Finance Delivery Mechanism	\$53,844,578
3. Access to Finance for Women-owned / Micro-, Small and Medium Enterprises Project	\$135,826,437
Activity 3.1 Gender Inclusive Value Chain Finance	\$72,032,840
Activity 3.2 Digital and Financial Literacy Enhancements	\$25,044,897
Activity 3.3 MSME Capacity Enhancement	\$32,512,990
Activity 3.4 Augmenting Government Data on MSMEs	\$6,235,710
4. Monitoring and Evaluation	\$7,000,000
5. Program Administration and Oversight	\$59,989,101
Total MCC Funding	\$649,000,000
Government of Indonesia Contribution	\$48,675,000
Total Compact	\$697,675,000

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¹ Numbers in table are rounded to the nearest dollar; due to rounding, they may appear to add up to more than \$649,000,000. However, the total MCC Funding compact budget amount is \$649,000,000.